



## COUNTY OF LOS ANGELES DEPARTMENT OF CONSUMER AFFAIRS

*"To Enrich Lives Through Effective and Caring Service"*

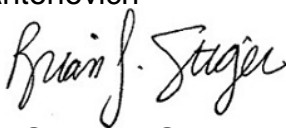
Members of the Board

Gloria Molina  
Mark Ridley-Thomas  
Zev Yaroslavsky  
Don Knabe  
Michael D. Antonovich

Brian J. Stiger  
Director

October 18, 2013

TO: Supervisor Mark Ridley-Thomas  
Supervisor Gloria Molina  
Supervisor Zev Yaroslavsky  
Supervisor Don Knabe  
Supervisor Michael D. Antonovich

FROM: Brian J. Stiger, Director 

SUBJECT: **SUMMARY OF BENEFITS FROM SENATE BILL 62 IMPLEMENTATION**  
(Item 2, Board Agenda for October 22, 2013)

This provides your Board additional information about the benefits of implementing Senate Bill 62.

### **Background on Existing Homeowner Notification Program**

Since 1997, Los Angeles County (County) has operated the homeowner notification program. The County notifies homeowners by mail when a Deed, Quitclaim Deed or Deed of Trust is recorded against their property. The mailing instructs homeowners to contact the Department of Consumer Affairs (DCA) if they suspect forgery, fraud, or need additional assistance.

DCA currently receives approximately 10,000 calls annually from homeowners on the existing program for deeds and conducts more than 500 fraud investigations. The County currently receives no funding for this effort.

The County projects that over 700,000 notifications will be sent out through the existing program in 2013. A survey included with the mailing indicates that more than 96% of homeowners support the notification program. This is a very successful program that provides real benefits to homeowners and reduces real estate fraud.

### **Real Estate Fraud and Foreclosures in Los Angeles County**

Although the housing market has begun to improve, foreclosures continue to be a problem for many homeowners in the County. Real estate scammers often locate and contact their victims from County records of foreclosures. Since nothing is currently mailed to homeowners by the County when a foreclosure notice is recorded, homeowners are unaware of the predators that will contact them. As the real estate market improves, DCA also expects to see an increase in real estate fraud complaints as scammers will try to exploit increasing property values.

The Los Angeles County Registrar-Recorder/County Clerk's office and DCA reviewed historical and current data on recorded documents and made the following projections of the number of documents expected to be recorded in Los Angeles County in 2014:

	<i>Actual</i>	<i>Actual</i>	<i>Estimate based on 8 months of data</i>	<i>Projection</i>
	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>
Deeds, Quitclaim Deeds and Deeds of Trust	482,388	618,014	700,308	782,000
Notices of Default	59,260	44,608	21,936	22,000
Notices of Sale	63,058	50,548	25,887	26,000
<b>TOTAL</b>	<b>604,706</b>	<b>713,170</b>	<b>748,131</b>	<b>830,000</b>

### Implementing Senate Bill 62

Your Board could implement SB 62 in the County by adopting the proposed ordinance which would increase the recording fee on Deeds, Quitclaims Deeds, and Deeds of Trust by \$3.00. The additional revenue would be used by DCA to provide counseling, information, and assistance to homeowners that receive the notification. These expanded services would allow DCA to fully investigate allegations of forgery, fraudulent recordings of deeds, changes to deeds after signing, transfer of title without the homeowner's consent, and refinancing schemes.

SB 62 implementation would also include adding a \$7.00 recording fee on Notices of Default and Notices of Sale. This revenue would enable the County to mail notifications to homeowners facing foreclosure and provide funding for DCA to provide counseling, information, and assistance to homeowners that receive the notification. This would include DCA's foreclosure avoidance services to explore options such as a loan modification, refinancing, reinstatement, short sale, cash-for-keys agreement, or deed-in-lieu of foreclosure.

### SB 62 Services Provided to Participants

By paying the additional SB 62 recording fee, homeowners and lenders will be able to receive special services that are not available to those that do not pay this fee. These services include:

- Homeowners that record a Deed, Deed of Trust, or Quitclaim Deed will receive a notification that a document has been recorded that affects ownership of their home and a copy of the recorded document for their inspection. The notification will warn of frauds involving recorded documents including forgery, fraud, changes after signing, transfer of title without homeowner consent, incorrect legal descriptions, refinancing schemes and other important information.

- The notification will include a toll-free telephone number that only recipients of a notification receive. The notification will inform them that they are granted the privilege to receive services including information, counseling and assistance by calling the toll-free number. This service is only available to homeowners that paid the fee and received the notification
- When a lender records a Notice of Default or Notice of Sale, the homeowner will receive a notification from the County offering assistance in working with the homeowner and lender to avoid foreclosure and warning the homeowner to avoid foreclosure scams that would impact their ability to successfully avoid foreclosure. The notification will include a toll-free telephone number that they can call for service and these services will only be available to homeowners in properties that have received the notification. These services include but are not limited to: assisting the lender and homeowner to reinstate the loan, developing a repayment plan with the lender, negotiating a forbearance, negotiating a cash-for-keys agreement, discussing a deed-in-lieu, or working with the lender to provide time for the homeowner to complete a sale or short sale of the home.
- DCA will be able to provide a variety of services to homeowners and lenders to assist with avoiding foreclosure on properties where a Notice of Default or Notice of Sale has been recorded. These services include counseling homeowners on their foreclosure avoidance options, helping homeowners communicate with their lender, helping homeowners understand the document requirements their lender needs to pursue foreclosure avoidance options, assisting the lender in reaching and communicating with the homeowner, and helping the homeowner understand the terms and requirements of any foreclosure avoidance solution offered by the lender.

### **Benefits of Implementation**

Homeowners and lenders would benefit from the implementation of SB 62. DCA is able to use historical data from the existing Homeowner Notification Program to estimate the workload and benefits to homeowners who receive notification from the deeds. Expanding the notifications to include Notices of Default and Notices of Sale will be a new County program. There is no actual program history or past program statistics. Based on the department's experience with the existing programs and experience with providing similar services, DCA estimates the following annual benefits from SB 62 implementation:

- Based on the projected number of recorded documents, DCA expects to receive approximately 23,000 calls annually from homeowners that receive the notifications which will lead to approximately 3,000 new cases (including fraud investigations and request for assistance with avoiding foreclosure).
- Fraud investigations conducted by DCA can lead to huge benefits for homeowners.

In 2013, a single case that was identified through the existing fraud notification program involved a fraudulent Deed of Trust that left the homeowner owing \$2,000,000. Through the intervention of DCA, the forged Deed of Trust was removed from the homeowner's record and their liability for the fraudulent loan was removed. DCA projects that it will receive more than 570 cases for investigation from the existing notification program in 2014. In addition to the financial benefit to homeowners, DCA is also participating in the regulatory process to reduce real estate fraud through our partnerships with law enforcement and prosecuting agencies.

- A report by the Federal Reserve Bank of Chicago cites a GMAC-RFC (Residential Funding Corporation) estimate that it loses more than \$50,000 per foreclosed home. Cost factors for the lender include:
  - The lender must find a "qualified buyer"
  - The lender will have clean-up and repair costs when the homeowner moves out
  - The lender incurs loss of mortgage payments while the home awaits sale
  - Sales costs including at least a 4% commission
  - The lender will have to pay property taxes, insurance costs, legal costs, processing fees, appraisal fees, and fees for a gardener and service people to maintain the property
  - Lenders must keep cash reserves as a percentage of deposits and assets so an inventory of repossessed homes reduces the amount of money they can lend

Expanding the notification program to include a notice to homeowners in default will benefit lenders. For a \$7.00 fee, which includes the cost of mailing a notification, DCA will work with the lender and the homeowner to reach a resolution that avoids foreclosure such as a loan modification, short sale, or cash-for-keys agreement. Based on previous experience, DCA estimates that it will be able to successfully avoid foreclosure in 25% of cases where the homeowner requests assistance. DCA projects that it will open 2,400 requests for assistance cases in 2014 and could help lenders and homeowners avoid 600 foreclosures potentially saving lenders \$30,000,000. Recent industry trends show that lenders' increased use of loan modifications and short sale options to avoid foreclosure are viable, cost effective options for avoiding foreclosures.

If you have any questions, please contact me, or your staff can contact Kirk Shelton at (213) 974-9774.

C: William T Fujioka, Chief Executive Officer  
Sachi A. Hamai, Executive Officer, Board of Supervisors  
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